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Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 OPIC-03
/101 W
----------260436Z 114436 /22
R 252110Z APR 77
FM AMEMBASSY QUITO
TO SECSTATE WASHDC 4052
INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 2675

E.O. 11652: GDS
TAGS: BDIS EINV ENRG EC
SUBJ: SEMBLANTES ANNOUNCES POSSIBILITY OF LEGAL MEASURES AGAINST NORTHWEST

REF: QUITO 2119

1. BEGIN SUMMARY: NAT-RES MINISTER SEMBLANTES HAS ANNOUNCED THAT THE GOE WILL TAKE LEGAL MEASURES AGAINST NORTHWEST FOR NONFULFILLMENT OF ITS PROGRAM TO DEVELOP ITS CONCESSION IN THE GULF OF GUAYAQUIL. NORTHWEST ATTORNEY TOLD EMBASSY THAT THE GOE HAS NO LEGAL BASIS TO CANCEL NORTHWEST'S CONCESSION. END SUMMARY.

2. MINISTER OF NATURAL RESOURCES JAIME SEMBLANTES ANNOUNCED TO THE PRESS APRIL 20 THAT NORTHWEST HAD FAILED TO FULFILL ITS DRILLING PROGRAM FOR THE SECOND HALF OF 1976, AND HE THEREFORE WOULD TAKE (UNSPECIFIED) LEGAL MEASURES AGAINST THE COMPANY.

3. SEMBLANTES NOTED THAT DETERMINATION OF THE RESERVES (WHICH HE CLAIMED NORTHWEST HAS NOT COMPLETED) NECESSARILY

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PRECEDES THE DETERMINATION OF APPROPRIATE USE FOR THE GAS. HE CITED NORTHWEST'S OBLIGATION, UNDER THE TERMS OF ITS CONTRACT, TO INDUSTRILIZE THE PRODUCTION FROM THE GULF OF GUAYAQUIL, IN PARTNERSHIP WITH CEPE. DESPITE THIS OBLIGATION, THE MINISTER SAID, NORTHWEST HAS PRESENTED A PROPOSAL TO SUPPLY GAS TO THE GUAYAQUIL MARKET, RATHER THAN TO INDUSTRIALIZE THE GAS. (SOME-

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WHAT CONTRADICTORILY, THE MINISTER WENT ON TO SAY THAT THE MARKETING PROPOSAL IS NOW UNDER CONSIDERATION IN HIS OFFICE.)

4. NORTHWEST ATTORNEY LUIS SALAZAR CALLED ON THE EMBASSY APRIL 21 TO DISCUSS THE MINISTER'S REMARKS AND GIVE NORTHWEST'S SIDE OF THE STORY. SALAZAR REPEATED NORTHWEST'S POSITION THAT IT COULD HARDLY PROCEED WITH A DRILLING PROGRAM WITHOUT SOME PROGRAM FOR DISPOSAL OF THE GAS, AND HE ADDED THAT NORTHWEST HAD PRESENTED THIS PLAN TO SUPPLY GAS TO THE GUAYAQUIL MARKET AS AN IMMEDIATE AND ECONOMICALLY FEASIBLE SOLUTION TO THE PROBLEM.

5. SALAZAR REPORTED THAT THE MAJOR ROADBLOCK IS CEPE'S DIRECTOR OF INDUSTRILIZATION, WHO OBJECTS TO THE NORTHWEST PROPOSAL ON GROUNDS THAT IT WOULD BURN OFF THE GAS RATHER THAN INDUSTRILIZE IT. CEPE HAS DONE NO FEASIBILITY STUDIES ON SUCH INDUSTRIALIZATION PLANTS, SALAZAR CONTINUED, AND WORLD MARKET CONDITIONS ARE PRESENTLY UNFAVORABLE FOR CONSTRUCTION OF SUCH PLANTS. HE SAID NORTHWEST HAS ALSO ASKED CEPE TO GUARANTEE THE PRICE FOR THE OUTPUT FROM SUCH PLANTS. NORTHWEST EXPECTS A RESPONSE TO ITS PROPOSAL WITHIN A FEW WEEKS.

6. SALAZAR ASSURED THE EMBOFF THAT THE NORTHWEST CONCESSION COULD NOT BE LEGALLY CANCELLED (CADUCED), SINCE THE EXPLORATION PERIOD SPECIFIED IN THE CONTRACT IS FIVE YEARS, AND THAT NORTHWEST HAS NOT VIOLATED ANY CONFIDENTIAL

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OF THE PROVISIONS OF THE HYDROCARBONS LAW.

7. COMMENT: THE ROOT PROBLEM IN THIS SITUATION APPEARS TO BE OF THE CATCH-22 VARIETY: NORTHWEST WON'T DRILL UNTIL IT HAS SOME ASSURED INDUSTRIAL OR COMMERCIAL MARKET FOR WHATEVER GAS THE DRILLING PRODUCES; CEPE WON'T MAKE MARKETING ARRANGEMENTS FOR THAT GAS UNTIL NORTHWEST'S DRILLINGS GIVE BETTER INDICATIONS OF WHAT THE RESOURCE BASE IS. THE GENERAL FEELING AMONG GOE PETROLEUM OFFICIALS IS THAT NORTHWEST WISHES CEPE TO GUARNATEE WHAT AMOUNTS TO RISK-FREE DEVELOPMENT OF THE GULF OF GUAYAQUIL. NORTHWEST JUSTIFIABLY POINTS TO CEPE'S INEPTITUDE AND VARIOUS CONFLCITING REGULATIONS THAT MATERIALLY AFFECT THE VIABILITY OF NORTHWEST'S FUTURE OPERATIONS. THE EMBASSY BELIEVES IT UNLIKELY THAT SEMBLANTES WOULD SUMMARILY CANCEL NORTHWEST'S CONCESSION, MAINLY BECAUSE THE GOE WOULD HAVE SERIOUS DIFFICULTIES IN SECURING ANOTHER CONTRACTOR, WITH THE POSSIBLE EXCEPTION OF OKC. BUT THE MINISTER MAY WELL

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IMPOSE FINES OR OTHER PENALTIES.
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